

## Norfolk District Accrual SOP

1. **Background:** In accordance with the objectives published by the Federal Accounting Standards Advisory Board and generally accepted accounting principles, financial activities must be maintained on the accrual basis of accounting. The SOP is based upon accrual procedures mandated by North Atlantic Division in DR 37-00-1 dated 28 September 2000 for properly and consistently recording accruals. Adherence is required to ensure that Norfolk District's financial records and reports reflect an accurate and complete picture of the results of operations for each fiscal month, fiscal quarter, and fiscal year.

During the first quarter of each of the last several years, the financial reports at North Atlantic Division and HQ USACE presented a distorted view of execution. A number of districts actually reported negative expenditures for one or more appropriations, because they had cancelled accruals made at fiscal year end and not recorded actual payments in their place. In general, there appears to be inconsistent procedures throughout the Corps for recording accruals, particularly year-end accruals. Processes employed for recording year-end accruals are often substantially different than processes used for other accounting periods (months and quarters). This gives the appearance of potential distortions of actual cost data in the official accounting records.

For financial reporting to be effective, information in financial reports must be: understandable, reliable, relevant, timely, consistent, and comparable. Proper and consistent reporting of accruals is important for accumulating, measuring, analyzing, interpreting and reporting cost information that is useful to both internal and external groups concerned with the way the District and Corps use, account for, safeguard and control resources to meet objectives.

2. **Reference:** ER37-2-10, Chapters 1 and 3.

3. **Definition:** Accrual accounting is recognizing expenditures when goods and services are received or furnished without regard to whether an invoice has been rendered or a disbursement or collection has been made. The concept recognizes all transactions in the accounting records (CEFMS) as the transactions or events take place or become effective. Expenses are recorded when incurred, liabilities when the goods or services are received, income when earned, assets when acquired or constructed, or when resources are consumed through use.

4. **Policy:** The following accrual policies are applicable to direct appropriated and Revolving Funds for Norfolk:

a. Accruals will be recorded on a monthly basis for all major categories of expense (i.e., construction contracts, major supply contracts, A-E contracts, etc) for all direct appropriations when the amount to be recorded per contract is \$50,000 or more. Lessor amounts may be recorded on a monthly basis but must be recorded no less than quarterly. Accruals against reimbursable orders will generally not be recorded in order to avoid erroneous billings to customers. If it becomes necessary to accrue against a reimbursable order, promptly contact the district F&A Office to ensure that you do not over accrue and cause a refund check to be issued through CEFMS.

b. Accruals will generally not be recorded when the amount per item is less than \$1,000. If you decide to record accruals for less than a \$1,000, the same policy/procedure will be consistently followed throughout the fiscal year. Accounting consistency is required to make internal and upward reports more comparable and more meaningful.

c. Revolving Fund accruals should be recorded quarterly if they are in excess of \$1,000. Even though this is far below the \$50,000 limit in paragraph 3(a) above, Revolving Fund accruals have a direct bearing on Norfolk District's operating budget and Revolving Fund operations that are monitored both internally and by higher command CMR's.

d. In order to retain control of the accrual process, only specific positions are authorized to record accruals. Those are: Contracting Officer Representatives (COR's), project managers, organizational managers, facility managers and accountants. Any of those positions can delegate "accrual authority" in writing to program analysts or other payment processing personnel (by name). The delegated individuals must also have proper authorities provided in CEFMS.

e. All accruals exceeding \$250,000 will be reviewed and approved one level above the originator or by an independent reviewer.

f. Individuals authorized to record accruals will be responsible for retaining documentation sufficient to support the amount of each accrual. An elaborate record keeping system is not required but accruals are subject to review and the individual recording the accrual should be able to articulate the basis and defend the amount recorded. The documentation will be retained by the originator and made available for review until the actual invoice is received and recorded in CEFMS.

g. Accruals will not be reversed until an actual receiving report/invoice is received and recorded or the accrual is determined to be erroneous.

h. The Resource Management Office will provide annual refresher training to all individuals authorized to record accruals. At a minimum, the training will cover:

- Purpose and intent of accruals.
- Definition of accruals.
- Review of this District SOP.
- Examples of valid and invalid accruals.

The training may be in the form of formal classroom training, a web based training package, a PowerPoint presentation distributed via email, or another forum to be determined each year.

i. The Resource Management Office will perform quarterly reviews of open accruals by generating an "Aged Accrual Report". Accruals older than 90 days will require a justification from the originator explaining why the accrual should remain open. All accruals without justification/support will be immediately cancelled.

j. **Labor accruals** occur when labor is recorded in CEFMS by timekeepers and certified by supervisors before the end of a pay period. Since Norfolk District policy is to record and certify labor in CEFMS through the last working day of each month, those entries that would not normally be recorded until the end of the pay period, constitute labor accruals.

k. Accruals for contracts funded with Federal and **Non-Federal** funds must be made proportionately, based on the existing agreement with the local sponsor(s). ER 37-2-10 allows for disproportional costing between Federal and Non-Federal funds during a quarter, however the balances must be within the agreed upon cost-shared percentages at the end of each quarter.